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SUBJECT: GERMANY MOVING QUICKLY FORWARD ON BIOFUELS

USDA for OSEC for Dorr, Faulkner, Keenum; FAS for Yost, CJackson, RSschwartz, DYoung, DSalmon

¶1. (SBU) Summary: U.S. Department of Energy's (DOE) Principal Deputy Assistant Secretary (PDAS) John Mizroch and U.S. Department of Agriculture's (USDA) Deputy Under Secretary (DUS) Douglas Faulkner represented the U.S. in July 2008 bilateral discussions on biofuels with German officials representing the Ministry of Environment (BMU), Ministry of Food, Agriculture, and Consumer Protection (BMELV), Ministry of Transportation (BMVBS), and the Research and Education Ministry (BMBF). GHG reduction is the primary aim of German biofuels research, but they are constrained in their stock of raw materials. NGOs pressure is one factor in their effort to develop sustainability criteria, as is the concern about the input competition between food and fuel production. The discussions explored potential areas in which the two countries could collaborate on biofuels. Germany expressed a strong interest in continuing the dialogue and conducting a return visit to the U.S. later in 2008. End Summary.

Reducing Greenhouse Gases the Object
of Biofuels German Work

¶2. (U) PDAS Mizroch and DUS Faulkner presented the U.S. energy strategy for transport fuels and vehicle efficiency and the political framework conditions for promoting the use of biofuels in the U.S. They also reviewed the U.S. priorities in the Energy Independence and Security Act of 2007 (EISA). They emphasized the Administration's commitment to furthering biofuel use as a means of increasing energy security and independence, as well as fighting climate change.

¶3. (SBU) In Germany, reducing greenhouse gas (GHG) emissions is the primary motivation for advancing biofuels. Wolfgang Hahn, Director General of Road Transport in BMVBS, acknowledged however, that Germany does not have enough raw materials to produce enough first-generation biofuels to meet its biofuel goals and will not have significant quantities of second generation biofuels before 2020. (Comment: The German Government supports the production of agricultural crops for biofuels and has a number of incentives in place that support the industry. In December 2007, the German Government adopted the EU goals for the production and use of biofuels into its own national policy program for renewable fuels and committed itself to achieving the goal of a 10 percent biofuels blending rate by 2020. End Comment).

¶4. (SBU) In the discussion of the current German system, Thomas Weber, Desk Officer in the Air Pollution Office of the BMU said that Germany is looking at reforming its current quota system (mandate) for biofuels. The mandate is currently measured in terms of energy content, but after 2015, BMU wants to measure the mandate in terms of GHG reduction potential.

Concerns about Biofuel Competition with Food

¶15. (SBU) Clemens Neumann, Director General for Renewable Resources in BMELV added that due to the lack of domestically-produced feed stocks, "Germany must therefore import biofuels and give the public the impression that they are produced in a sustainable way." The German government is under pressure from non-governmental organizations (NGOs) to ensure that biofuels use does not harm the environment or compete with food production. German officials conceded that Germany received criticism alleging that its biofuels mandates were driving high commodity prices. To address this, they expressed a strong interest in learning about the research done in the U.S. that showed biofuels mandates were a small factor in driving higher food and gasoline prices.

¶16. (SBU) Jan-Hendrik Stapp, Desk Officer at BMELV, stated that German farmers also support the implementation of sustainability criteria (SC) because it evens the playing field and subjects competing countries to the same environmental standards they face, thereby eliminating their production cost advantages.

Sustainability Criteria: Countering NGO Campaigns

¶17. (SBU) In December 2007, Germany proposed SC that must be met in order for a biofuel to count against the German biofuels mandate or to receive tax benefits. Germany also submitted this proposal to the EU for approval. These criteria were proposed in an effort to counter NGO campaigns. Under the proposal, production and import of biofuels or feed stocks that do not meet the criteria will still be possible, but they would not receive any tax benefits. The EU put the German proposal on hold until the end of 2008 in order to develop its own sustainability criteria. The major criteria for both the German and the EU proposal include GHG savings and a prohibition of feedstock production on "high value" land (e.g., rain forests, nature conservation areas, or land with high carbon stock).

(Comment: While these criteria are aimed at reducing GHG emissions, they could also pose a trade barrier, depending on the formulation of the criteria. End Comment).

¶18. (SBU) DUS Faulkner presented the U.S. approach regarding sustainable production of biofuels. He stated that the U.S. has a much broader view of sustainability which does not reduce sustainability to GHG savings but also encompasses economic sustainability. He added that the U.S. believes in voluntary, rather than mandatory sustainability standards. In response, Neumann asked whether the United States could support the establishment of an international certification system for biofuels.

He stated that BMELV already supports a pilot program to set up a certification scheme, which upon completion, should be able to certify compliance with the proposed standards as well as establish a "meta" or umbrella system for harmonizing different certification schemes. To ensure that eventually the proposed certification scheme could and would be applied globally, Germany is seeking participants from the U.S. DUS Faulkner stressed the U.S. opinion that any international work on standards should be undertaken within the framework of the Global Bioenergy Partnership (GBEP). (Comment:

The system developed in the pilot program does not set any criteria, but functions as a tool to make sure the rules and requirements of a given system are actually being observed. In addition, the system would help to make different systems comparable and compatible, thus reducing the need to seek additional audits. End Comment).

Opportunities for Cooperative Research

¶19. (U) PDAS Mizroch and DUS Faulkner presented an overview of research and development (R&D) activities in the field of biofuels in the U.S. These focused on bio-chemical and thermo-chemical conversion of biomass into biofuel and other biomass-based products.

They provided background on the funding lines and introduced the Germans to the concept of the Biomass Research Board and the three biomass research centers.

¶10. (SBU) On the German side, R&D activities on biofuels are divided among various ministries and agencies. Although the BMU is not the primary research sponsor for biofuels, it is responsible for coordinating biofuels policies and research amongst the various ministries because of the role it plays in combating climate change.

Germany supports biomass research for a range of uses that are not always specific to biofuels, including for electricity production and home heating. The BMU allocates some of its profits from the Emissions Trading System to general climate protection research. In 2008, 2-3 million Euro were targeted to develop the German Biomass Research Center in Leipzig (with the assistance of BMELV and BMVBS).

¶11. (SBU) BMBF does not have any biofuels-specific research projects, but instead focuses on bioenergy and plant research in general. According to Christian Mueller, the Assistant Director for Nutrition and Renewable Resources in BMBF, the ministry has allocated 50 million Euro for bioenergy over a 4-5 year period. Mueller is interested in doing joint workshops and sharing information among scientists. He specifically mentioned an interest in working on plant genotyping and phenotyping.

¶12. (SBU) BMELV is another major sponsor of biofuels research. The Agency for Renewable Resources (FNR) within BMELV receives an estimated 17.5 million Euro annually, specifically for biofuels research. Ronny Winkelman, FNR Project Manager expressed interest in a fact-finding trip the U.S and collaborating on research, particularly on pyrolysis.

¶13. (SBU) Stefan Woehrl, Head of the Environmental Department of the German Association of the Automotive Industry (VDA) said Biomass-to-Liquid (BTL) has the largest GHG emissions reduction potential, with 90 percent. In April, Chancellor Merkel visited the CHOREN commercial-scale BTL plant in Freiberg to mark the completion of the plant's building phase. Woehrl said that cellulosic ethanol has a GHG emissions reduction potential of 89 percent.

German Interest in Information Exchange

¶14. (SBU) Uwe Lahl, Director General for Emissions Control at BMU and Neumann both expressed interest in learning more about the biofuels agreements the United States has with China, India, Brazil and Sweden. In addition, Lahl sought information about the compatibility of U.S. vehicles with the bioethanol fuel blend (E10).

In early 2008, the German Government tried to implement a similar E10 blending policy. Foreign manufacturers, however, claimed that the proposed E10 mandate could have damaged up to 3 million vehicles due to the fuels' corrosive nature. Consequently, the government abandoned its proposed policy and left it with a public relations fiasco. The news surprised the U.S. Delegation given that similar vehicles in the U.S. had been using E10 for some time. Lahl stated that they could not share the auto manufacturers' data because of proprietary reasons, but he welcomed any information the United States could share on the matter.

B99: A Trade Query

¶15. (SBU) Although trade issues were not on the original agenda, German officials did bring up the B99 (blend of 99 percent biodiesel and 1 percent diesel) trade issue at the end of the meetings. German officials contended that the U.S. exported 700,000 metric tons of subsidized biodiesel to the EU in 2007. They claimed that the subsidized imports were hurting German producers and maintained that the policy was not in the interest of U.S. taxpayers because it subsidized foreign companies that were exporting the biofuels. PDAS Mizroch responded that the U.S. was aware of the issue and noted that they were not the appropriate interlocutors to discuss the matter, but rather an issue that needed to be addressed by the U.S. Trade Representative's Office. Nonetheless, the U.S. delegation indicated that not all the biodiesel being exported from the United States consisted of imported fuels. DUS Faulkner stressed that the U.S. Government was aware of the issue and it was cooperating with the EU to address the complaint filed by the European Biodiesel Board (EBB).

Next Steps

¶16. (SBU) Both sides agreed on the following potential areas of cooperation: 1) exchanges of scientists, and 2) discussions addressing the issue of higher food prices. The German delegation

proposed to exchange lists of research programs that are currently undertaken in both countries, with a view of facilitating an increased person-to-person cooperation between German and U.S. scientists. In addition, the German delegation expressed strong interest in a follow-up meeting in the U.S. in the fall of 2008.

¶117. (SBU) COMMENT: The meetings served as a good start for bilateral discussion on biofuels. A member of the BMELV delegation commented after the meeting that he was pleased to see that there was a common understanding about the importance of biofuels as well as their accompanying problems.

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